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PHILIP MORRIS COMPANIES INC.

LEGAL DEPARTMENT

1996 ORIGINAL BUDGET

AND

FIVE YEAR PLAN
1996-2000

PRIVILEGED AND CONFIDENTIAL

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LEGAL DEPARTMENT

1996 Original Budget

Variance Analysis

($ In thousands)

	1996 OB	1995 OB/SRF	1994 Actual	Variance Fav (Unfav) vs. 1995 OB/SRF	%	1994 Actual	%
Salaried Personnel	**94**	**78**	**65**	**(16)**	**(20.5)%**	**(29)**	**(44.6)%**
Total Salaries	$10,882	$8,355 *	$6,079	(2,527)	(30.2)%	(4,803)	(79.0)%
Fringe Benefits	4,053	3,481 *	2,135	(572)	(16.4)%	(1,918)	(89.8)%
Salaries & Fringe Benefits	**14,935**	(A) **11,836**	**8,214**	**(3,099)**	**(26.2)%**	**(6,721)**	**(81.8)%**
Legal - General	7,500	(B) 11,000 *	10,500	3,500	31.8 %	3,000	28.6 %
Legal - USA	8,000	(C) 8,000	9,500	0	-	1,500	15.8 %
Legal -International	1,250	1,250	2,225	0	-	975	43.8 %
Tobacco & Health	50,000	(D) 53,350	27,899	3,350	6.3 %	(22,101)	(79.2)%
Sub-Total Legal	**66,750**	**73,600**	**50,124**	**6,850**	**9.3 %**	**(16,626)**	**(33.2)%**
OTHER EXPENSES:							
Trademark Expense-Misc	4,300	(E) 2,600	2,250	(1,700)	(65.4)%	(2,050)	(91.1)%
Patent Expense	1,300	1,300	2,111	0	-	811	38.4 %
Registrar and Transfer Expense	1,375	1,375	1,375	0	-	0	-
Stockholders' Meeting Expense	1,950	1,950	1,950	0	-	0	-
Travel	1,015	(F) 685	738	(330)	(48.2)%	(277)	(37.5)%
All Other - Legal	2,853	2,803	1,095	(50)	(1.8)%	(1,758)	(160.5)%
Total Expenses	**$94,478**	**$96,149**	**$67,857**	**1,671**	***1.7 %***	**(26,621)**	***(39.2)%***
C.A.G.R. 1994 - 1996	**18.0%**						

* Includes 1995 Second Revised Forecast (SRF) increases, which in the aggregate totaled $3 million.

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Variance Explanation

A. Headcount/Salaries Increase due to:

1. Addition of five (5) lawyers: One (1) to support Washington Relation office; three (3) to support Worldwide Regulatory Affairs Department; one (1) in Trademark Department to support international food trademark work.

2. Addition of five (5) staff positions: One (1) Manager; four (4) Paralegals (One transfer from PMCC Budget).

3. Addition of Six (6) secretaries: One (1) - Litigation group; one (1) - Washington office; two (2) - Supporting lawyers for WWRA; one (1) - PMUSA Legal; one (1) - Trademark department.

B. Legal General

This account has been reduced, although it is anticipated spending for 1996 will be $2.5 million more than the amount budgeted. The carryover accrual will be used to cover the difference.

C. Legal USA

It is anticipated that the fees for this account will be $1.5 million higher than the 1995 expenses, due to expenses for: 1) independent auditor of AAA Program; 2) state OSHA litigation; and 3) additional legal expenses relating to support of litigation/document collection projects. However, no increase for 1996 is shown, and the shortfall will be absorbed by the carry forward accrual account.

D. Tobacco Health

It is always difficult to forecast this budget, because of the uncertainty of trial settings and the filing of new cases. The $50 million budget for 1996 is our best estimate at this time. If that number turns out to be too low, we can dip into the carry forward accrual of $11,900 (as of 9/30). The 1995 and 1996 expenses are substantially higher than the 1994 actual due to: 1) major discovery activity in pending cases, and the Medicaid cases and class actions; 2) possible retrial in 1996 of the Rogers case; 3) increase in international product liability litigation: three (3) cases in Argentina, one (1) case in Brazil, the Legal Aid cases in the United Kingdom and one (1) case in Scotland; 4) increase in costs as a result of Recall Litigation; 5) active litigation against the FDA and; 6) the assistance to Liggett [approximately $6,000,000] in defense of their pending litigation matters.

E. Trademark Expense

The increase is due primarily to the addition of trademark filing and maintenance for Kraft Foods International and a large cost for one time filing of marks in the European Community.

F. Travel

Increase due to additional staff.

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FIVE YEAR PLAN 1996-2000

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Objective # 1
Maintain a Vigorous Defense of Tobacco Product Liability Actions

BACKGROUND

For many years, Philip Morris Incorporated ("PM USA") and other members of the United States tobacco industry have been defendants in product liability actions in which plaintiffs seek damages allegedly sustained as a result of exposure to tobacco smoke. The number of traditional tobacco product liability cases has remained fairly stable over the last few years, but significantly increased in 1995. There are currently 117 such cases pending against the industry, including 74 against PM USA. These numbers represent increases, from 48 and 21, respectively, from this same time last year. These increases come primarily from cases filed by three firms in Florida (45 and 31). PM USA was also sued by the State of Florida, following the lead of Mississippi, Minnesota and West Virginia, in an action to recover for payments made to Medicaid and other insurance recipients for injuries allegedly sustained from smoking. PM USA continues to vigorously defend itself in several class actions in which plaintiffs seek to represent "addicted" current and former smokers. PM USA also is a defendant in a number of suits brought by non-smokers seeking damages for injuries allegedly caused by environmental tobacco smoke. In addition, PM USA received a Grand Jury subpoena for documents arising out of an investigation by the U.S. Attorney for the Southern District of New York resulting from an article in *The New York Times*, claiming that PM USA concealed from the public, research relating to nicotine "addiction." There also has been an increase in litigation against PM tobacco interests abroad. Three smoking and

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health cases have been filed in Argentina, one class action in Brazil, one case in Scotland, and 200 claimants were granted limited legal aid in the U.K. to investigate their claims. Finally, Philip Morris Companies Inc. and PM USA are defendants in several purported class actions alleging violations of the federal securities laws. One, *Lawrence*, filed in the United States District Court, Eastern District of New York, has been certified as a class action. In *Lawrence*, plaintiffs claim that defendants maintained artificially high levels of profitability by allegedly shipping more inventory to customers than was necessary to satisfy market demand. The defense of smoking and health product liability cases, including the addiction theory class actions, state Medicaid cases, and ETS cases, as well as the prosecution of litigation against the EPA and FDA (see Objective #3), is the paramount responsibility of the Legal Department and will be our number one priority over the Plan Period.

1995 HIGHLIGHTS

- Successfully defended PM USA in the *Rogers* smoking and health case in Indiana.

- Obtained an order from the trial judge in *Castano*, permitting an immediate appeal of his order certifying a class action and an order granting the appeal by the Fifth Circuit Court of Appeals.

- Coordinated the continued orientation of two new national counsel law firms, Munger, Tolles & Olson (Los Angeles) and Dechert, Price & Rhoads (Philadelphia), to assist in the defense of the smoking and health product liability cases. The addition of these new firms was necessary because of the class actions and Medicaid reimbursement lawsuits. Also began the orientation of a third firm, Winston & Strawn (Chicago), to

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provide litigation support and additional trial responsibility, primarily from the firm's lead trial counsel, Dan Webb, a former United States Attorney.

- Obtained dismissal of 8 of 10 counts of the complaint filed by the state in the West Virginia Medicaid reimbursement litigation, and obtained an order from the trial court that the litigation could not be prosecuted by the state under a contingent fee contract with plaintiffs' lawyers.

- Obtained an order from a Florida state court that the 1994 statute passed by the Florida legislature, which significantly changed both the substantive law and procedural rules designed to make it easier for the state to recover Medicaid payments made to individuals allegedly injured by smoking, was, in part, unconstitutional and to be applied only to industry conduct occurring after July 1, 1994, the effective date of the statute. The order is on appeal to the Florida Supreme Court.

PROJECTS

(1) Continue a vigorous defense of tobacco product liability cases, including those related to environmental tobacco smoke, in the United States and abroad.

(2) Continue the coordination and education of new national counsel and develop strategies for successfully defending the class action and state Medicaid lawsuits.

(3) Continue efforts in tort and litigation reform in the Congress and the states.

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(4) Continue to coordinate PM USA's response to the CID issued by the Justice Department inquiring into alleged tobacco industry activity to restrain competition in the development of new products.

(5) Continue to coordinate PM USA's response to ongoing criminal investigations.

(6) Continue coordination with Worldwide Regulatory Affairs, Corporate Affairs, Research and Development and other industry members in managing smoking and health issues in the U.S. and internationally.

(7) Successfully defend the lawsuits, including the three class actions, arising out of the May 1995 cigarette recall.

(8) Work with Corporate Affairs and Worldwide Regulatory Affairs in developing strategies for dealing with media coverage of the Company and industry.

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Objective # 2
Provide Effective Response to Regulatory Activities Relating to Tobacco

BACKGROUND

Regulatory initiatives against the tobacco industry on both the federal and state level continued to present a major challenge in 1995. The most significant of these initiatives—those involving the FDA, OSHA and the DOJ—and the role of the Legal Department in responding to them are discussed below. During the Plan Period, the Legal Department will continue to work with the Corporate Affairs and Worldwide Regulatory Affairs groups to monitor and anticipate regulatory actions at the federal and state levels and will assist the Company to protect its interests as appropriate.

I. Food and Drug Administration ("FDA")

BACKGROUND

On August 10, President Clinton announced his support of the FDA's assertion of regulatory control over the marketing, distribution and sale of cigarettes. On the same day, FDA Commissioner David Kessler issued detailed proposed regulations of the agency's plan to regulate cigarettes. The Legal Department, along with the Worldwide Regulatory Affairs Department, has assumed a major responsibility for responding to this regulatory challenge to the domestic tobacco business.

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1995 HIGHLIGHTS

- Filed suit against the FDA in U.S. District Court for the Middle District of North Carolina challenging the FDA's assertion of jurisdiction over cigarettes. Subsequently filed a motion for summary judgment (see Objective #3).

- Assisted in development and review of materials in connection with a mobilization effort in opposition to the FDA's plan.

- Participated in various strategy meetings to address issues presented by the FDA's plan.

PROJECTS

(1) Continue to vigorously pursue the lawsuit against the FDA and defend PM USA's right to continue to manufacture and sell cigarettes to adults.

(2) Continue to assist in the development and review of materials in connection with a mobilization effort in opposition to the FDA's plan.

(3) Continue to participate in strategy and planning meetings related to the FDA.

(4) Work with the Washington Relations Office on possible Congressional activities related to FDA jurisdiction.

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II. Occupational Safety and Health Administration ("OSHA")

BACKGROUND

OSHA held public hearings from September 20, 1994 through March 13, 1995 on the proposed OSHA regulation that would virtually ban smoking in workplaces subject to the Agency's jurisdiction. A likely outcome of the OSHA proposal is that, some time after the January 1996 deadline for additional public submissions on the regulation, the agency will publish a revised rule. That revised rule could be subject to a second round of public comments and possibly, public hearings. A final or revised rule is not likely until sometime in 1996. In November 1995, the Congressional Research Service ("CRS") issued a second report on the issue of ETS, and once again called into question the bases of the EPA's Report. Indeed, CRS specifically challenges the grounds for OSHA's rulemaking which prompted Senator Ford to send a strong letter to the Administration calling for the OSHA record to be reopened.

1995 HIGHLIGHTS

- Identified and briefed witnesses for public hearings on the proposed rule before an administrative law judge.

- Participated in the public hearings, including through the cross-examination of witnesses.

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- Assisted in organizing and initiating a mobilization effort in opposition to the OSHA proposal.

PROJECTS

(1) Establish favorable evidentiary record in the OSHA hearings to prepare for possible legal challenges to the proposed rule, including through the filing of a detailed post-hearing brief, and efforts to ensure that the Agency and other interested parties are aware of CRS's conclusions regarding ETS.

(2) Work with Corporate Affairs and Worldwide Regulatory Affairs to support state and federal legislative and regulatory options, such as state OSHA rules, as alternatives to the proposed federal OSHA rule.

(3) Prepare a legal challenge to a final OSHA regulation, if it continues to be unreasonably broad.

III. Department of Justice ("DOJ")

BACKGROUND

Since October 1994, PM USA has voluntarily undertaken efforts to reposition its brand advertising at professional sports arenas in order to eliminate debate over placement. In June 1995, those voluntary efforts were reflected in a Consent Agreement with the Department of Justice. PM USA agreed to reposition some of its brand advertising in

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professional football, basketball, baseball and hockey arenas so that it remains visible to stadium attendees but does not generate television coverage. The television pick-up of these ads in the past was incidental. Nonetheless, repositioning brand advertising affirms PM USA's objective of reaching adult smokers at the stadiums, not those watching television.

1995 HIGHLIGHTS

- Audited all existing stadium advertising.
- Negotiated agreements for repositioning signage at certain stadium locations.
- Entered into a Consent Decree with the DOJ.

PROJECTS

Continual monitoring of compliance within professional sports arenas.

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Objective # 3
Make Appropriate Affirmative Use of the Judicial System

BACKGROUND

There continues to be a dramatic escalation of attacks on PM USA and the U.S. tobacco industry by anti-smoking forces inside and outside government and by the media. Because a fair hearing is generally not available from government agencies or the media, the courts may offer the best opportunity for PM USA and, at times, the other operating companies, to present their views and defend their rights. The Legal Department has, for example, made affirmative use of the judicial system to challenge the FDA's assertion of jurisdiction over cigarettes, the deficient science of the EPA report on ETS, the libelous ABC broadcast on nicotine "spiking," the constitutionality of various smoking restrictions, and, in the food business, patent infringement by ConAgra.

1995 HIGHLIGHTS

- Successfully settled the libel action against ABC/Capital Cities for its broadcasts claiming that PM USA "spiked" its cigarettes with nicotine, obtaining public apologies by ABC and recouping $15,000,000 in legal fees.

- Filed suit against the Food and Drug Administration (FDA), challenging that agency's assertion of jurisdiction over cigarettes.

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- Successfully sued ConAgra for patent infringement, recovering over $11,000,000 in damages.

PROJECTS

(1) Continue to vigorously pursue prosecution of the FDA and EPA lawsuits.

(2) Continue to scrutinize government action against smoking, and where appropriate, alcohol consumption and food labeling, for possible challenges on constitutional or other legal grounds.

(3) Continue to make effective use of the courts to defend against libelous media reports.

(4) Continue to work with interested parties on potential challenges to restrictions on the advertising and marketing of cigarettes, and where appropriate, beer and food.

(5) Continue to initiate litigation across operating companies where competitive advantage or other abuse of Company assets are at stake.

(6) Initiate "preemptive" declaratory judgment actions, when advantageous, in the states threatening to sue for recovery of Medicaid and insurance payments.

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Objective # 4
Develop a Comprehensive Corporate Governance Strategy

BACKGROUND

With the rise of institutional shareholder activism, corporate governance has become a major issue for most publicly traded corporations. In the case of the Company, investor concern about corporate governance matters seemed to reach a peak in 1994 as a result of a lower share price early in the year and controversies over separating the food and tobacco businesses, changes in senior management and shareholder demands to meet with outside directors. Some of the 1994 controversy carried over to the 1995 Annual Meeting, with certain institutional shareholders, led by CalPERS, withholding votes from directors on the issue of the shareholders' right to meet with outside directors. However, corporate governance controversies surrounding the company have receded due to a number of factors, including the installation of a new senior management team with a clearly focused growth strategy, steadily improving earnings, an increased dividend, a $6 billion share repurchase program, favorable litigation developments, a significantly increased stock price, and redemption of the shareholder rights plan. Lingering corporate governance issues remain, however, and could become the subject of renewed controversy if Philip Morris' earnings or stock price were to decline or as result of the Bennett Lebow/Carl Icahn campaign to split up RJR Nabisco.

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1995 HIGHLIGHTS

- Conducted successful 1995 Annual Meeting, easily withstanding the campaign of certain institutional investors to withhold votes from Company directors.
- Integrated corporate governance strategy into comprehensive investor relations program.
- Held private meetings with two public pension funds, primarily on tobacco-related issues.
- Developed quiet contacts with various institutional investors.
- Commenced evaluation of different stock watch firms to find firm with the best information on corporate governance activists.
- Commenced discussions with a small group of companies to develop an alternative organization to the Council of Institutional Investors.

PROJECTS

(1) Monitor LeBow/Icahn spin-off assault on RJR, and develop comprehensive response plan.

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(2) Complete evaluation process and select new stock watch firm.

(3) Continue effort to develop an alternative organization to the Council of Institutional Investors.

(4) Continue quiet meetings with institutional investors on issues of mutual concern.

(5) Develop alternative approach for meetings between shareholders and outside directors.

(6) Consider opening up the dividend reinvestment plan to encourage greater ownership by individual investors.

(7) Continue to monitor and assess developments in corporate governance and to work with Investor Relations, Corporate Affairs, Human Resources and operating companies in developing and implementing action plans for emerging issues and areas of concern.

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Objective # 5
Improve Quality and Responsiveness of Legal Services

BACKGROUND

The Legal Department is committed to continuous improvement of the quality and responsiveness of the services that it provides to the Company. During the Plan Period, the Department will continue its efforts to seek and respond to suggestions from clients, make effective use of new technology and foster professional development and diversity. In addition, having obtained approval from Corporate senior management, we have centralized the Department across operating companies to ensure that lawyers report to lawyers and that the Corporate General Counsel has appropriate authority with respect to legal policy, staffing and budget matters throughout the Company.

1995 HIGHLIGHTS

- Increased and enhanced in-house legal support for PM USA marketing and promotions, Corporate human resources and Corporate government affairs functions. Also added new lawyers in Hungary, the Czech Republic and Russia to support the growing international tobacco business in the EEMA Region.

- Established Worldwide Regulatory Affairs group, spearheaded and supported by Department lawyers.

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- Pursuant to centralization plan, developed procedure whereby the Corporate General Counsel interviews all external candidates for in-house lawyer positions in all operating companies.

- Implemented system for notifying Company lawyers of open positions across operating units (prior to external recruiting) to enhance professional development and training opportunities.

- Held first Worldwide Legal Conference in four years to foster exchange of ideas and enhance cooperation among the Department's lawyers.

- Continued to hold periodic meetings of the general counsels of the operating companies to share ideas for improvement and innovation, to encourage synergy among all the Company's lawyers and to promote a consistent approach to important policy issues.

- At Kraft and Miller, established improved information fee tracking and administrative billing review systems for process improvements, efficiency and cost-effectiveness.

- Drafted mandatory alternative dispute resolution program for implementation by Philip Morris USA-Field Sales to stem increasing employment termination litigation and to reduce outside counsel fees.

- Established arrangement with Lawyers Alliance to provide *pro bono* legal services to social service agency in New York City.

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- Established Minority Mentoring Program, through which New York-based Department lawyers provide counseling and networking resources for local minority law students.

PROJECTS

(1) Implement second phase of the Department centralization plan, determining whether all lawyers will be employed by Corporate as opposed to individual operating companies.

(2) Continue to improve procedures to obtain regular client feedback and to address any deficiencies or concerns.

(3) Provide increased opportunities for professional development of the Company's lawyers and paralegals through participation in continuing legal education programs and assumption of new responsibilities.

(4) Continue to update and expand technological resources of the Legal Department, particularly in the areas of litigation support, telecommunications and trademark administration.

(5) Develop procedure to track use of minority lawyers and professional staff at outside law firms.

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(6) Develop plan for alternative fee arrangements with outside counsel commensurate with current business and legal environment to obtain highest quality work at the lowest obtainable cost.

(7) Implement Minority Mentoring Program in Chicago, Milwaukee and Denver areas for participation by Department lawyers at Kraft, Miller and Mission Viejo.

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Objective # 6
Provide High Quality Legal Services in Connection with Significant Transactions and Business Projects

BACKGROUND

To maintain its dynamic growth and enhance shareholder value, the Company is constantly reexamining and restructuring its business arrangements, negotiating and concluding significant transactions with third parties and developing new products and sales and marketing programs. During the Plan Period, the Legal Department will continue to work closely with Corporate and operating company management and staff departments in the planning, negotiation and execution of significant transactions and business projects, with the goal of providing legal services of the highest quality.

1995 HIGHLIGHTS

I. Domestic

- Advised Corporate senior management on issues relating to a possible separation of the Company's food and tobacco businesses.

- Provided advice and assistance on legal issues in connection with PM USA's nationwide recall of multiple cigarette brand packings.

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- Provided advice and assistance to PM USA on legal and regulatory issues relating to the development of a new cigarette, including manufacturing, testing, marketing, contractual arrangements and project assets structuring.

- Provided advice and transactional assistance to PM USA on Marlboro Unlimited train promotion including the following:

  - Negotiated and monitored performance in accordance with construction agreement.

  - Researched federal, state and local laws applicable to construction, operation, and maintenance of the train and ancillary events.

  - Negotiated rights to use railroad trackage.

  - Worked with Risk Management to ensure adequate liability coverage.

  - Negotiated agreement and reviewed materials in connection with national sweepstakes to select train passengers.

- Provided advice and assistance to PM USA on corporate advertising and programs, including the "Action Against Access" program to prevent underage smoking.

- Restructured PM USA sales programs on the wholesale and retail level (e.g., Wholesale Masters, Retail Masters).

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- Provided advice and assistance to Kraft Foods, Inc. with respect to the acquisition of the Del Monte RTE pudding business and the divestiture of various businesses including Kraft Foodservice, Specialty Oils, Confections, Margarine and Bakery and resulting plant closings, expansions and reconfigurations.

- Provided advice and assistance to PMCC on asset dispositions, workouts and restructurings.

PROJECTS

(1) Continue to investigate corporate structure options and keep senior management advised.

(2) Continue to monitor construction of Marlboro Unlimited train, update federal, state and local research applicable to construction, operation, and maintenance of train and ancillary events, and assist with the development of promotional plans in connection with future use of the train.

(3) Continue to identify areas where costs can be reduced and business relationships made more efficient by the negotiation of master agreements and, where appropriate, coordinate the negotiation and drafting of such master agreements.

(4) Continue to work with various business areas in developing business rules and guidelines and providing legal advice on issues such as security and access governing

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the development and implementation of integrated enterprise-wide computer business systems such as SAP.

(5) Continue to provide advice and assistance to PM USA on corporate advertising and programs.

(6) Continue to provide advice and assistance to PM USA on corporate advertising and programs.

(7) Continue to provide high quality legal advice and assistance to management in planning, negotiating and executing significant transactions and other business projects as they arise.

II. International

1995 HIGHLIGHTS

- Provided advice and assistance to PMI on numerous transactions including:
  - Submission of bid on privatization of PMI's Polish licensee, ZPT.
  - Negotiation for establishment of manufacturing affiliates or subsidiaries in Malaysia and The Philippines.
  - Negotiation of joint venture in China.

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- Negotiations regarding construction of Greenfield factories in Leningrad region and in Moscow.
- Negotiation and completion of contracts for sale of product to customers holding excise tax stickers in Russian and other former Soviet republics.
- Participation in possible privatization of tobacco industry in Romania and Bulgaria.

○ Provided advice and assistance to Kraft Foods International on numerous transactions, including:

- Divestiture of: UK Entenmanns and Mr. Brains (frozen food) businesses in UK; START cereal business in Sweden; croissant business in Greece; Aura confectionery and 25% holding of Crippa e Berger (San Pellegrino) businesses in Italy; and Chesdale cheese and Craigs jams businesses in New Zealand.
- Acquisition of: 91% of Ukraina confectionery business in the Ukraine; and 99% of Petroconf confectionery business in Russia.
- Establishment of joint ventures in: Shunhua Kraft Confectionery Company in China; and Unifoods in Japan.

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- Provided advice and assistance towards plan to establish Chinese holding company in China which will own Kraft and PMI investments in the PRC.

- Provided advice and assistance to PMCC on cross border transactions involving Petrobrás, CEMEX, PEMEX, Grumma and Compagnie des Eaux.

PROJECTS

Continue to provide high quality legal advice and assistance to management in planning, negotiating and executing significant transactions and other international projects as they arise.

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Objective # 7
Ensure the Adequacy of Compliance Programs on a Company-wide Basis

BACKGROUND

In the United States and certain foreign jurisdictions, there has been a continuing trend toward criminal regulation of business activity and enhanced enforcement by prosecutors and regulatory agencies. Ensuring that the operating companies can aggressively pursue their business interests while remaining within the bounds of the law, both here and abroad, will remain a major priority for the Legal Department as the Compliance Task Force continues to develop and monitor compliance programs over the 1996-2000 Plan Period. The Department will continue to work closely with Corporate Audit to improve procedures for detecting and investigating possible wrongdoing.

1995 HIGHLIGHTS

- Completed a revised edition of a *Guide to Antitrust Compliance.*
- Completed follow-up reviews of all companies' environmental and workplace safety compliance programs.

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- Prepared Employee's Guide to Legal Compliance for PM Asia, and held two-day compliance workshop for outside counsel focusing on the Foreign Corrupt Practices Act and marketing compliance.

- Increased international compliance efforts Company-wide, including legal audits, especially in the newly acquired Central and Eastern European affiliates.

- Met with senior operating company management to review compliance programs and reemphasize their importance.

PROJECTS

(1) Continue to develop, implement, revise and monitor compliance programs in key areas:

- Antitrust
- Environmental
- Equal Employment
- Food and Drug
- Government Affairs
- Government Contracts
- Intellectual Property
- Workplace Safety

(2) Continue to expand and standardize international compliance efforts, particularly in the areas of antitrust, environment, workplace safety and foreign corrupt practices.

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(3) Develop international marketing compliance guidelines, specific to operating company industries.

(4) Continue to conduct follow-up reviews of compliance programs.

(5) Develop an international version of the *Legal Guide for Corporate Auditors.*

(6) Implement a computer-based, interactive antitrust training tutorial.

(7) Implement government contract compliance program, including simplified procedures in light of recently enacted Federal Acquisition Streamlining Act.

(8) Revitalize the Internal Reporting of Wrongdoing Policy.

(9) Develop a Company-wide policy on the domestic and international use of the Internet for advertising purposes, ensuring protection of Company assets and proper compliance with marketing and other regulatory issues.

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Objective # 8
Ensure the Protection of the Company's Intellectual Property Rights

BACKGROUND

The Company's trademarks and patents are arguably its most important assets. *Marlboro* has been ranked as the world's most valuable trademark, and the Company's large portfolio of other leading cigarettes, food and beer brands is key to its continued profitability and growth. The Company's patents are also vital to maintaining its technological advantages in its industries. Protection of the Company's trademarks and patents will continue to be one of the Legal Department's principal responsibilities during the Plan Period.

1995 HIGHLIGHTS

- Transferred responsibility for Kraft Foods International trademark work to Corporate Trademark group, comprising more than 10,000 trademark registrations. Filed more than 200 trademark applications in Latin America to complete coverage for that Region's strategic brands.

- Coordinated study and recommendations for a new computer system for tracking all corporate trademarks to be implemented in 1996.

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- Successfully obtained judgement against Star Tobacco Company to enjoin its use of GUNSMOKE cigarettes which utilize a cowboy figure on a pack and "Come to Gunsmoke Country" in its ads.

- Obtained several favorable decisions to block registration of Souza Cruz's HOLLYWOOD LIGHTS & Eccentric Roof Device, leading to a favorable worldwide settlement agreement wherein BAT will withdraw or cancel all its HOLLYWOOD LIGHTS & Eccentric Roof Device applications/registrations.

- Obtained reversal by the Indonesian Supreme Court of an adverse lower court decision, resulting in invalidating N.V. Sumatra Tobacco's MARLBORO registration based upon the fame of the MARLBORO mark in Indonesia.

- Successfully defended two attacks on Miller Brewing Company's Brazilian MILLER trademark, thus permitting market entry.

- Reached accord with Anheuser-Busch wherein neither party will claim trademark rights to "ICE" thus avoiding considerable litigation.

- Opposed the grant of patents to competitors and instituted revocation proceedings on ultraslim cigarettes to preserve the Company's rights to operate in that area, and won in Australia, Germany, and Switzerland.

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- Reviewed worldwide patent portfolio to ensure continued maintenance on important patents and applications and discontinuance of patents and applications covering technology no longer of interest.

- Initiated procedures for coordinating the Company's patent efforts on a worldwide basis, including participating in patent review meetings worldwide, coordinating joint research and development contracts and handling of unsolicited ideas, coordinating incentive item clearances on a worldwide basis.

- Worked with PM International on contracts with affiliates acceptable to foreign governments for implementing new technologies worldwide.

- Established worldwide proprietary positions on various key R&D, MTS and PPI programs.

- Reacted to BAT contentions regarding their obligations under DIET patents in Australia, UK and Malaysia.

- On behalf of Kraft Foods, Inc., initiated more than 40 cease and desist letters, more than 50 oppositions and filed more than 300 applications for new registrations.

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PROJECTS

(1) Oversee and customize Corporate IS Department softwear for a new worldwide trademark system scheduled for implementation by year end 1996.

(2) Continue the staunch defense of the BELMONT trademark in Ecuador and Columbia.

(3) Continue to review the trademark coverage for Kraft Foods and Kraft Jacobs Suchard trademarks in Latin America, where the need appears greatest, and subsequently, in the remaining jurisdictions to assure coverage of the strategic brands and core marks worldwide.

(4) Obtain European Community Trademark protection for the Company's major marks following the January 1, 1996 effective date of the Community trademark law.

(5) To reconcile all Kraft Foods International trademark records against the physical registrations, bringing all records up-to-date.

(6) Devise a long term plan for centralization of trademark administration responsibility.

(7) Refine procedures for worldwide coordination of patent matters.

(8) Continue periodic review and expansion of the Company's worldwide patent portfolio to ensure coverage of important technologies.

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Objective # 9
Ensure Effective Records Management

BACKGROUND

The Company generates and manages millions of business records in paper and electronic formats. Over the Plan Period, the Legal Department intends to enhance the efficiency of the programs which govern the retention and disposal of such records. Through the initiatives of the Electronic Mail Task Force, we will also work with Human Resources and the Information Services departments to increase employee awareness of the need for precision in creating and securing records through a clear policy in order to avoid inadvertent prejudice to the Company.

1995 HIGHLIGHTS

- Directed several extensive records review and collection projects in response to litigation and investigations.
- Continued work on and implementation of records management programs and retention schedules for Corporate, PM USA, PM International, PM Capital Corp. and Miller.
- Hired a Records Manager to oversee Company-wide records management issues.

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- Created the Electronic Mail Task Force to formulate a comprehensive policy on electronic records.

PROJECTS

(1) Continue to implement and improve Company-wide programs regarding records creation, retention and disposal.

(2) Continue to counsel employees and third-parties regarding the manner in which sensitive records should be prepared.

(3) Implement "record days" in each business unit as a means to enforce retention periods.

(4) Improve procedures to ensure that electronic records (e.g., word processing, Profs, and databases) are efficiently handled in compliance with the records management policy.

(5) Work with Corporate Audit and the Security Department to develop additional systems that will prevent theft or leaks of confidential information.

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Objective # 10
Ensure that International Legal Issues are Managed Effectively and Consistently, with Clear Enunciation of Policy

BACKGROUND

With the rapid growth of the Company's businesses abroad in the face of intense competition and a rapidly expanding international regulatory environment, more effective and consistent management of international legal issues is vital to the Company's continued success in international markets. The development and enunciation of consistent policies concerning recurring international business and legal issues will be an additional priority of the Legal Department during the Plan Period. Accordingly, these goals have been added to the 1996 Plan as a new objective.

PROJECTS

- With the development and growth of the international businesses, hire lawyers in local countries as necessary to support and respond to legal issues.

- Continue to combat and stop manufacture of counterfeit versions of Company products through intense investigation and enforcement actions by government authorities and private litigation.

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- Provide assistance and advice on programs designed to prevent diversion of product away from the intended market -- through pricing, customer selection and, where appropriate, litigation.

- Adopt and disseminate a policy requiring greater control by lawyers and management on use of outside investigators.

- Formulate policy on the handling of unsolicited ideas submissions.

- Fortify protection against disclosure of confidential information through the use of new confidentiality agreements with employees in managerial or sensitive positions.

- Assist and advise Corporate Affairs on opposition to international advertising bans and overly restrictive legislation, emphasizing the recent Canadian decision relating to tobacco advertising and consideration of similar actions in other countries.

- Work with Human Resources management on action to be taken by PMI and Kraft Foods International under the Works Council Directive of the EU.

- In Miller's international markets, especially the EC, Japan and Brazil, implement initiatives to control impact of developing alcohol regulation (e.g., the use of additives, preservatives, modified hop extracts and ingredient labeling).

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